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RUEHVEN/USMISSION USOSCE IMMEDIATE 2265
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 1650
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C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 001750

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SUBJECT: KYRGYZ PLEDGE TO JOIN HIPC INITIATIVE

REF: BISHKEK 1692

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Classified By: Amb. Marie L. Yovanovitch, Reason 1.4 (b) and (d).

11. (C) Summary: World Bank-led discussions with a Kyrgyz negotiating team headed by PM Kulov yielded an agreement December 9 on Kyrgyzstan's accession to the HIPC initiative. The Kyrgyz Government has yet to make any public announcement about the agreement, but the World Bank country manager believed it unlikely that President Bakiyev might veto the accord. We understand that parliament will debate, but not vote on, the agreement. The HIPC trigger list has been narrowed, but retains the energy and mining sectors. The World Bank manager anticipates final approval by World Bank directors in March and plans to "nag" Kyrgyz officials monthly regarding the implementation of the agreed program of triggers. Given continued public hostility to HIPC, we should avoid any statements which could inflame HIPC opponents until the government establishes a public course of action on HIPC. End summary.

Kyrgyz Commit to HIPC

12. (C) In a December 11 conversation with the Ambassador, World Bank Country Manager Roger Robinson revealed that Heavily Indebted Poor Countries (HIPC) initiative negotiations with the Kyrgyz team headed by Prime Minister Kulov concluded satisfactorily December 9. The parties agreed to specific HIPC triggers and content, and discussed the parameters of the government's public announcement regarding its decision to join the initiative. Given the contentious nature of the negotiations, Robinson requested and is expecting the Kyrgyz side to provide a "modest letter of intent" signed by President Bakiyev, PM Kulov or FM Jekshenkulov to document the Kyrgyz position. (Note: Robinson, in a December 8 briefing, described this letter as a "short-term tactical device" designed to mollify World Bank directors in Washington. End note.)

13. (C) Robinson cautioned that President Bakiyev retains final veto authority over the agreement, but thought it unlikely due to presidential confidant Kurmanbek Ukolov's participation in the negotiations. The government does not plan to seek parliamentary approval of the HIPC initiative, he noted, but likely intends to consult with individual members to obtain "soft approval." Kyrgyz media December 12 quoted pro-HIPC Minister of Economy and Finance Japarov saying Parliament would discuss, but not vote on, the HIPC initiative. Parliamentarian Beknazarov told us the discussion would take place December 15.

Moscow Gives its Blessing

14. (C) International Monetary Fund (IMF) Resident Representative James McHugh informed the Ambassador December 8 that President Bakiyev, during the recent Commonwealth of Independent States summit in Minsk, asked Russian President Putin about HIPC. Putin reportedly advised Bakiyev to send a team to consult with the Russian Ministry of Finance. Subsequently, PM Kulov, Deputy PM (and HIPC critic) Usenov and a third individual traveled to Moscow, and received a positive assessment from Russian officials.

Causes for Delay

15. (C) Robinson, in a December 8 briefing to the donor community, explained that the Kyrgyz side requested a reduction in the number of HIPC triggers. While he declined to reveal the entire list, he confirmed that energy, mining, and public procurement remained and that customs reform had been dropped. With reference to customs reform, Robinson

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reasoned that certain items, which were already included in other donor programs, could justifiably be removed from the HIPC initiative. The mining sector, he said, had been the last sticking point.

16. (C) In the briefing, Robinson identified the main HIPC-related misconceptions and stumbling blocks he has encountered since arriving to Kyrgyzstan: 1) a belief that the World Bank would somehow assume ownership of assets; 2) an inability to disassociate HIPC from previous events in Kyrgyzstan (Note: This could be a reference to Akayev-era debts, which some HIPC opponents claim the current government should renounce. End note.); and 3) a desire to audit all projects in Kyrgyzstan dating back to independence. He found the last point "disconcerting," and pledged "to remedy this situation in the new year so that the Kyrgyz understand the operational fiduciary controls relating to our interventions."

The Way Forward

17. (C) With agreement reached, Robinson told the Ambassador that World Bank officials are drafting the necessary documents for Washington-based World Bank officials to issue final approval in mid-March. The Kyrgyz government, he informed attendees of the December 8 briefing, is not required to do anything at this point, "except work with civil society and implement triggers." (Note: HIPC opponents, including many civic organizations, held another protest rally December 12. End note.) Robinson noted that the Kyrgyz government can withdraw from the initiative prior to the decision point without impacting World Bank and IMF programs. He said the Kyrgyz had requested HIPC-related technical assistance, and anticipated much work in areas such as pensions. Although the government promised to provide quarterly progress reports, Robinson pledged to "nag" the Kyrgyz for monthly feedback.

Opening the Door to More Participants

18. (C) Addressing representatives of other donor organizations attending the briefing, Robinson said he planned to reach out to the Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD). He mentioned it would be new ground for the ADB and EBRD, and noted that it would be "tough to add new items from the EBRD and ADB to the HIPC agreement now." EBRD resident representative Dan Berg (Amcit, please protect) later complained to emboff about this "take it or leave it" approach.

Comment

19. (C) While the government appears committed to the HIPC initiative, parliamentary opposition to HIPC could turn this issue into a rallying point against the government. Recent pronouncements indicate that Deputy PM Usenov is moderating his anti-HIPC stance, but questions remain regarding other prominent opponents (reftel) and how many fissures remain in the government's position. Beknazarov told us that while he was against HIPC, it would be politically useful for him for Kyrgyzstan to accept the program, so he could use the issue to criticize the government since he can no longer complain about the need for a new constitution. To avoid complicating a sensitive political issue, we should reserve substantive public comment on Kyrgyzstan's HIPC position until President Bakiyev and Parliament have expressed themselves publicly, and a specific course of action has been agreed.
YOVANOVITCH